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**SF 2340** – Ethanol Tax Credit Extension (LSB 6117SS)  
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Fiscal Note Version – New

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### **Description**

Currently, an excise tax is imposed on each gallon of motor fuel (generally gasoline) sold in the State. The general tax rate is 20.0 cents per gallon, but subject to adjustment each 12-month period based on a formula that produces a paired rate system for ethanol-blended gasoline and other motor fuel. The paired rate system is set to expire on June 30, 2012. After that date, the tax rate for ethanol-blended gasoline and regular gasoline will be uniformly imposed at 20.0 cents for each gallon of motor fuel. This Bill extends the paired rate system through July 1, 2013.

### **Background**

In 2001, the Legislature enacted HF 716 (FY 2002 Ethanol Sales Promotion Act). The Act provided for changes in tax rates based on the gallons of ethanol-blended gasoline sold in the State each calendar year beginning in FY 2003. The Act allowed the tax rates to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year. The Act required a sunset on June 30, 2007, allowing the excise tax on gasoline to revert to 20.0 cents per gallon and ethanol tax to increase from 19.0 to 20.0 cents per gallon. However, the 2007 General Assembly enacted a five-year extension of the sunset to June 30, 2012.

### **Assumptions**

The Department of Transportation estimates 1.65 billion gallons of gasoline and ethanol-blended gasoline are taxed annually in Iowa. The estimates for gasoline and ethanol-blended gasoline are calculated on the assumption that 74.0% of sales will be ethanol blends and 26.0% will be gasoline in FY 2013 and FY 2014 (this is the current distribution of gasoline and ethanol-blended gasoline sales and has been relatively static in recent years). Under current law, with the variable tax rate sunset on June 30, 2012, both gasoline and gasohol will be taxed at 20.0 cents per gallon and will generate an estimated \$330.0 million a year. If the variable tax rate is extended for one year, the estimated revenue generated for ethanol-blended gasoline will be \$232.0 million and the estimated revenue generated for gasoline would be \$90.0 million for combined estimated revenue of \$322.0 million a year.

### **Fiscal Impact**

The estimated fiscal impact of this tax rate change is a net decrease in revenues of \$8.0 million to the Road Use Tax Fund in FY 2013. The Bill is estimated to be revenue neutral to the Road Use Tax Fund in subsequent years.

**Source**

Iowa Department of Transportation

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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